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TAGS: [ECON](#) [PGOV](#) [PREL](#) [PINR](#) [BB](#) [XL](#)
SUBJECT: BARBADOS' ECONOMY: A PERSPECTIVE FROM THE FINANCE
MINISTRY

REF: BRIDGETOWN 1902

Classified By: CDA Mary Ellen T. Gilroy for reasons 1.4 (b) and (d).

11. (C) Summary: With the economy becoming a central issue in the early stages of Barbados' parliamentary campaign (reftel), Prime Minister Arthur's government is under increasing pressure to defend its record management. In a recent meeting, Minister of State in the Finance Ministry Clyde Mascoll admitted that the size of Barbados' debt, inflation, and current account deficit could be cause for concern, but was generally optimistic about the country's economic prospects. While Barbados' economy remains one of the stronger performers in the Eastern Caribbean and the region as a whole expects a significant revenue boost from next year's Cricket World Cup, Barbados' economic challenges will require more of the government's attention and possibly some belt-tightening.

DEBT: NUMBERS DON'T TELL THE FULL PICTURE

12. (C) During a November 28 meeting with PolOff, Minister of State in the Finance Ministry Clyde Mascoll offered a generally upbeat assessment of Barbados' economy. Although Mascoll admitted that the size of the debt could be a concern, he stressed that the structure of the debt should also be considered. According to Mascoll, Barbados' sovereign debt is around 70 percent of GDP, but if one were to include government guarantees, the debt to GDP ration would rise to 92 percent. However, argued Mascoll, with only 30 percent of Barbados' debt being external, the pressures on the country's foreign exchange reserves are not as severe as one would expect or as the opposition alleges. While the government has committed to reduce the country's debt to GDP ratio to 60 percent by 2015, Mascoll admitted that the government chose not to follow the IMF's call for a faster timetable because it would have been politically too difficult.

13. (C) Mascoll further noted that the debt may in fact be a much smaller percentage of the country's GDP. He is convinced that Barbados underestimates the size of its economy for two reasons: 1) the last time Barbados rebased its GDP estimates was in 1974 and a rebasing is therefore long overdue; and 2) Barbados' informal sector, not included in official GDP estimates, could be as much as 30 percent of the country's GDP. Mascoll said that the government would likely include rebasing of the GDP on its agenda after the election. Noting ruefully that the country's debt has become

a political hot potato, Mascoll said that any attempts at a GDP rebasing now would be tarred by the opposition as a "cooking the books" exercise.

INFLATION: FEWER HOME COOKED MEALS?

¶4. (C) Inflation, another issue which has featured prominently in the opposition's attacks on the government, has become so politicized, according to Mascoll, that no one is focusing on the causes for the rising cost of living. Barbados' inflation has been hovering around 7 percent, and much of the recent inflationary pressures are attributable to high energy costs. However, Mascoll acknowledged that food costs have been rising even faster than energy costs and have hit the average Barbadian household especially hard, since 34 percent of the average household's budget is spent on food. The government has sought to calm the public's discontent over high food prices by promising not to renew the 6-percent cess, or import surcharge, when it expires in the spring of ¶2007.

¶5. (C) In a show of some political independence, Mascoll recently stated publicly that eliminating the cess would have little impact on the rising food costs. He reiterated this point during the meeting, stating that the real culprit behind the rising food costs was a change in Barbadians' lifestyle. Mascoll told PolOff that he conducted an informal study of the issue and was surprised to learn that "eating away from home" made the single highest contribution to the rise in the cost of food index. He therefore thought that any changes to taxes or duties on food would do little to change this fundamental shift in consumption patterns.

TAMING IMPORTS VS. UNLEASHING EXPORTS

¶6. (C) Mascoll also said that he disagreed with Prime Minister Arthur's focus on the country's rising levels of imports. In a number of recent speeches, Prime Minister Arthur and other members of his government have sounded alarm bells about imports, which have risen by almost USD500 million to USD1.6 billion over the past two years. In Mascoll's view, the government should stop raising questions about imports and should instead focus on generating foreign exchange earnings by encouraging growth in tourism and financial services sectors. These sentiments have been recently echoed by the Governor of the Central Bank of Barbados, Dr. Marion Williams, who has expressed concerns about the fact that Barbados' economic growth has been driven largely by a boom in sectors, such as construction, that generate no foreign exchange earnings.

BIOGRAPHIC NOTE

¶7. (C) Clyde Mascoll assumed his current position as Minister of State in the Finance Ministry in January 2006, when he resigned as the leader of the opposition DLP and crossed the parliamentary floor to join Prime Minister Arthur's governing Barbados Labour Party (BLP). Mascoll's party switch was unprecedented in Barbadian politics. While politicians have crossed the parliamentary floor before, no party leader had ever done so. This controversial move continues to fuel attacks on Mascoll by the DLP, which uses every opportunity to quote Mascoll's contradictory pronouncements on the state of the Barbadian economy made before and after the party switch. Unfortunately for Mascoll, who is an economist by training and profession, there is much ammunition available for DLP's use because Mascoll, while leading the opposition, prided himself on keeping the BLP government's feet to the fire on economic issues. While he has generally toed his new party's line on economic issues, he has shown here and there some refreshing glimpses of independent thought.

¶8. (C) Although some have speculated that Mascoll may

dislodge Deputy Prime Minister Mia Mottley as Prime Minister Arthur's protg, he has yet to distinguish himself in his new position within the BLP and on the public stage. He has not been given much visibility by the BLP, a fact that the DLP occasionally brings up to argue that Mascoll could have gotten a better deal from the BLP had he been more competent and savvy. Peter Wickham, a political advisor and commentator closely connected with the DLP, described Mascoll as an unimpressive politician and uninspiring campaigner. Following a September 2006 poll, which showed that only 4 percent of the respondents would prefer Mascoll as their next prime minister, Wickham predicted that Mascoll would not even be able to get reelected to his parliamentary seat in the next general election.

COMMENT

¶9. (C) Last month, Barbados celebrated the 40th anniversary of its independence, an event that politicians of all stripes seized on as an opportunity to extol the country's accomplishments and, if possible, link those accomplishments to their party's leadership and vision. That Barbados has achieved much economic progress over the past four decades is undeniable. For most of that period, Barbados enjoyed steady economic growth that has improved life for all social strata. Barbados has also weathered the financial crisis of the 1990's and more recently the brief recession following 9/11 without serious, long-term consequences. These successes, however, do not necessarily insulate Barbados from future problems. Concerns about Barbados' rising debt, inflation, and current account deficit are being raised by an increasing number of observers, both domestically (e.g., the Central Bank of Barbados) and internationally (e.g., the IMF).

¶10. (C) Prime Minister Arthur's government will therefore need to revisit some of its economic policies. At this time, the government is focusing on preparations for the 2007 Cricket World Cup (CWC). Consequently, course corrections in the government's economic policies will be on hold until after the CWC, especially since the government is hoping for a significant economic boost as a result of the CWC. The CWC, however, will unlikely be the panacea that Barbados

expects. While the government hopes to translate the CWC into a long-term boom in its tourism sector, it will probably have to adopt some belt-tightening measures in the second half of 2007 to address the three problems discussed here. That the economy is shaping up to be the central theme for the next parliamentary elections, now expected after the March-April CWC, is a good sign. Both major parties will have to focus their campaigns on the key economic issues facing the country and develop action plans to keep Barbados on a path of steady economic growth.

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